

# U.S. Secrets Hinder Investors

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WASHINGTON, March 29 — The Pentagon's penchant for secrecy is hampering investors who are denied basic details about the business prospects of aerospace companies, according to financial experts in industry and Government.

As a result, they believe, the industry may find it harder to raise money just as the Pentagon is demanding that companies put more capital at risk during weapons development.

The Pentagon sometimes declines to divulge anything about multibillion-dollar programs. Shareholders may know nothing about much of the business done by the companies they own. Investment analysts confess to working in the dark, sometimes seeking classified information as they devise market strategies.

## Congress Growing Skeptical

Members of Congress are increasingly skeptical of the Pentagon's motives for keeping some programs hidden from the public. The military says it seeks only to prevent the Soviet Union from gauging American technical progress. But lawmakers suggested that the secrecy cloaks mismanagement.

According to the Center for Defense Information, a Washington group that compiles military data, the Pentagon's 1988 budget includes \$22 billion for "black" programs about which little or nothing is disclosed. The research group said this represents an increase of 16 percent in a year.

Many classified programs involve "stealth" technologies, which allow weapons to elude detection. The Pentagon is applying these radar-dodging techniques to a new strategic bomber being built by the Northrop Corporation, a cruise missile being made by the General Dynamics Corporation and a top secret jet built by the Lockheed Corporation.

## Programs in Contrast

Not all stealth weapons are classified. The Air Force has published many details of its stealthy Advanced Tactical Fighter. As a result, the financial community knows that the two teams of contractors competing for the job, potentially worth \$60 billion, face several years of heavy investments before the winning contractors begin to make any profits.

In contrast, the Navy last year classified all details of its Advanced Tactical Aircraft. Wall Street does not know how much will be disclosed when the Navy chooses between two teams, one including Northrop, Grumman and LTV, and the other comprising the McDonnell Douglas and General Dynamics.

Representative Barbara Boxer, a California Democrat and member of the House Armed Services Committee, recently introduced two bills meant to increase Congressional supervision of military programs. But analysts say they, too, would benefit

from any increase in information.

"It would be highly beneficial for me as an analyst" to know basic financial facts about classified programs, said Gary Reich of Wertheim & Company. "I think analysts have lousy information. I don't think there is terrific advice being given. Everybody is walking around giving advice based on some source that may not be reliable."

## Case of Northrop

A case in point is Northrop, which has said that about half of its revenues are derived from classified work.

In the third quarter of 1986, Northrop reported, without elaboration, that events relating to a large classified Government contract had forced the company to write off \$90 million in profits and lower its estimate of future profit margins.

Analysts believe the company ran into problems as prime contractor for the Advanced Technology Bomber,

## Analysts say that divulging cash flow is not going to help the enemy.

commonly known as the Stealth bomber. The project is expected to cost more than \$50 billion.

Analysts say they can only guess at Northrop's cash flow from the bomber program. "We'd like to know that," said Mr. Reich. "That's certainly not going to help the enemy."

According to Wolfgang and Christopher Demisch, brothers who share an office as aerospace analysts at the First Boston Corporation, it is impossible to know precisely what lies behind Northrop's write-off.

Financial sources, who asked not to be named, say the company is upset by its inability to fully disclose financial details of the bomber business in its reports. A Northrop spokesman declined to comment on the situation.

Representative Boxer said in an interview last week that she sympathizes with the analysts.

"I was a stockbroker in the 60's," Mrs. Boxer said. "I wouldn't feel confident in recommending a company when so much is blacked out."

Representative John D. Dingell, Democrat of Michigan, who chairs a House subcommittee that supervises the Federal regulation of investments, complained in a March 23 letter to the Securities and Exchange Commission that "defense contractors apparently are not complying" with regulations requiring full disclosure of their financial affairs.

He continued: "It appears that defense contractors may be misusing national security classifications to cloak internal problems, to withhold

material information and to give misleading impressions to users of financial statements."

Mr. Dingell said Lockheed had failed to report to shareholders when payments on a top secret program were halted last year. The payments were suspended by the Pentagon when committee investigators found Lockheed had lost control of thousands of documents related to the project.

H. David Crowther, vice president for communications, said Lockheed has not violated any securities regulations.

"We've got Defense Department rules and we've got S.E.C. rules, and we comply with both of them to the letter," Mr. Crowther said.

But he said the absolute secrecy surrounding some Lockheed programs, such as space systems believed to be used for electronic surveillance, is frustrating.

"It's sort of a mixed blessing, I guess," said Mr. Crowther of the concern's heavy involvement in classified military work. "Some of the things you are most proud of are on the black side. For the investor relations people, they face the frustration. We don't have the opportunity to tout those programs that are most valuable."

Financial analysts said that it is very difficult to find out details of some of Lockheed's projects.

They cited a program to build Stealth fighter aircraft for the Air Force. The company and the military refuse to discuss the project's existence. But financial analysts believe that more than 50 planes have been built by the company, that they are deployed and may conduct secret reconnaissance missions or stand ready to strike important targets in wartime, and that the company gets revenues that probably exceed \$500 million annually, and unknown profits, from the program.

## A Difference to Shareholders

Some analysts believe the program was curtailed after about \$7 billion was spent on it. Others think it may be continuing. The difference to shareholders, they say, is significant.

Some analysts say the secrecy makes little difference to companies such as Lockheed that have copious cash and long histories of secret work. "Wall Street loves black programs," said Wertheim's Mr. Reich. "If it is secret, they can raise more money."

But some companies suffer from secrecy. In 1983, a small company, Global Analytics Inc., found itself unable to complete an initial public offering of stock because its work was considered secret. The concern filed a preliminary prospectus describing its work on stealth technology, in some detail. But after the Armed Forces Journal publicized the prospectus, Global, encouraged by the Pentagon, decided to remain in private hands. It was later taken over by the Aluminum Company of America.